

PROVIDENT FINANCIAL SERVICES INC  
Form 10-Q  
May 10, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2013

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-31566

**PROVIDENT FINANCIAL SERVICES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of Incorporation or Organization)

**42-1547151**  
(I.R.S. Employer Identification No.)

**239 Washington Street, Jersey City, New Jersey**  
(Address of Principal Executive Offices)

**07302**  
(Zip Code)

**(732) 590-9200**

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding twelve months (or for such shorter period that the Registrant was required to submit and post such files). YES  NO

## Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-Q

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES  NO

As of May 2, 2013 there were 83,209,293 shares issued and 59,679,433 shares outstanding of the Registrant's Common Stock, par value \$0.01 per share, including 416,123 shares held by the First Savings Bank Directors' Deferred Fee Plan not otherwise considered outstanding under U.S. generally accepted accounting principles.

**Table of Contents**

**PROVIDENT FINANCIAL SERVICES, INC.**

**INDEX TO FORM 10-Q**

Item Number		Page Number
<b><u>PART I FINANCIAL INFORMATION</u></b>		
1.	<b><u>Financial Statements:</u></b>	
	<u>Consolidated Statements of Financial Condition as of March 31, 2013 (unaudited) and December 31, 2012</u>	3
	<u>Consolidated Statements of Income for the three months ended March 31, 2013 and 2012 (unaudited)</u>	4
	<u>Consolidated Statements of Comprehensive Income for the three months ended March 31, 2013 and 2012 (unaudited)</u>	5
	<u>Consolidated Statements of Changes in Stockholders' Equity for the three months ended March 31, 2013 and 2012 (unaudited)</u>	6
	<u>Consolidated Statements of Cash Flows for the three months ended March 31, 2013 and 2012 (unaudited)</u>	8
	<u>Notes to Consolidated Financial Statements (unaudited)</u>	9
2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
4.	<u>Controls and Procedures</u>	39
<b><u>PART II OTHER INFORMATION</u></b>		
1.	<u>Legal Proceedings</u>	40
1A.	<u>Risk Factors</u>	40
2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
3.	<u>Defaults Upon Senior Securities</u>	41
4.	<u>Mine Safety Disclosures</u>	41
5.	<u>Other Information</u>	41
6.	<u>Exhibits</u>	41
	<u>Signatures</u>	44

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. FINANCIAL STATEMENTS.****PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY**

Consolidated Statements of Financial Condition

March 31, 2013 (Unaudited) and December 31, 2012

(Dollars in Thousands)

	March 31, 2013	December 31, 2012
<b><u>ASSETS</u></b>		
Cash and due from banks	\$ 63,495	\$ 101,850
Short-term investments	1,212	1,973
Total cash and cash equivalents	64,707	103,823
Securities available for sale, at fair value	1,215,540	1,264,002
Investment securities held to maturity (fair value of \$355,144 at March 31, 2013 (unaudited) and \$374,916 at December 31, 2012)	342,696	359,464
Federal Home Loan Bank stock	40,675	37,543
Loans	4,910,355	4,904,699
Less allowance for loan losses	70,034	70,348
Net loans	4,840,321	4,834,351
Foreclosed assets, net	12,192	12,473
Banking premises and equipment, net	67,103	66,120
Accrued interest receivable	22,099	24,002
Intangible assets	357,477	357,907
Bank-owned life insurance	148,496	147,286
Other assets	75,469	76,724
Total assets	\$ 7,186,775	\$ 7,283,695
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>		
Deposits:		
Demand deposits	\$ 3,435,629	\$ 3,556,011
Savings deposits	925,274	914,787
Certificates of deposit of \$100,000 or more	304,917	324,901
Other time deposits	610,761	632,572
Total deposits	5,276,581	5,428,271
Mortgage escrow deposits	22,541	21,238
Borrowed funds	854,007	803,264
Other liabilities	43,201	49,676

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-Q

Total liabilities	6,196,330	6,302,449
<b>Stockholders' Equity:</b>		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized, none issued		
Common stock, \$0.01 par value, 200,000,000 shares authorized, 83,209,293 shares issued and 59,968,621 shares outstanding at March 31, 2013 and 59,937,955 outstanding at December 31, 2012	832	832
Additional paid-in capital	1,022,386	1,021,507
Retained earnings	399,291	389,549
Accumulated other comprehensive income	6,053	7,716
Treasury stock	(386,737)	(386,270)
Unallocated common stock held by the Employee Stock Ownership Plan	(51,380)	(52,088)
Common stock acquired by the Directors' Deferred Fee Plan	(7,275)	(7,298)
Deferred compensation - Directors' Deferred Fee Plan	7,275	7,298
<b>Total stockholders' equity</b>	<b>990,445</b>	<b>981,246</b>
Total liabilities and stockholders' equity	\$ 7,186,775	\$ 7,283,695

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY**

## Consolidated Statements of Income

Three months ended March 31, 2013 and 2012 (Unaudited)

(Dollars in thousands, except per share data)

	Three months ended March 31,	
	2013	2012
<b>Interest income:</b>		
Real estate secured loans	\$ 38,335	\$ 38,959
Commercial loans	9,971	10,370
Consumer loans	5,957	6,289
Securities available for sale and Federal Home Loan Bank stock	6,192	8,332
Investment securities held to maturity	2,839	2,918
Deposits, Federal funds sold and other short-term investments	10	12
<b>Total interest income</b>	<b>63,304</b>	<b>66,880</b>
<b>Interest expense:</b>		
Deposits	4,956	7,002
Borrowed funds	4,453	5,041
<b>Total interest expense</b>	<b>9,409</b>	<b>12,043</b>
<b>Net interest income</b>	<b>53,895</b>	<b>54,837</b>
Provision for loan losses	1,500	5,000
<b>Net interest income after provision for loan losses</b>	<b>52,395</b>	<b>49,837</b>
<b>Non-interest income:</b>		
Fees	7,960	8,075
Bank-owned life insurance	1,210	1,362
Net gain on securities transactions	511	2,183
Other income	264	1,108
<b>Total non-interest income</b>	<b>9,945</b>	<b>12,728</b>
<b>Non-interest expense:</b>		
Compensation and employee benefits	20,991	20,508
Net occupancy expense	5,206	5,026
Data processing expense	2,622	2,588
FDIC insurance	1,250	1,390
Amortization of intangibles	511	739
Advertising and promotion expense	746	685
Other operating expenses	5,620	5,855
<b>Total non-interest expense</b>	<b>36,946</b>	<b>36,791</b>

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-Q

Income before income tax expense	25,394	25,774
Income tax expense	7,566	7,346
Net income	\$ 17,828	\$ 18,428
Basic earnings per share	\$ 0.31	\$ 0.32
Average basic shares outstanding	57,167,198	57,051,827
Diluted earnings per share	\$ 0.31	\$ 0.32
Average diluted shares outstanding	57,337,215	57,082,631

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY**

## Consolidated Statements of Comprehensive Income

Three months ended March 31, 2013 and 2012 (Unaudited)

(Dollars in thousands)

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
Net income	\$ 17,828	\$ 18,428
Other comprehensive income (loss), net of tax:		
<b>Unrealized gains and losses on securities available for sale:</b>		
Net unrealized (losses) gains arising during the period	(1,620)	1,424
Reclassification adjustment for (gains) losses included in net income	(302)	(1,291)
Total	(1,922)	133
Amortization related to post-retirement obligations	259	(388)
Total other comprehensive loss	(1,663)	(255)
<b>Total comprehensive income</b>	<b>\$ 16,165</b>	<b>\$ 18,173</b>

See accompanying notes to unaudited consolidated financial statements.



**Table of Contents****PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY**

Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2013 and 2012 (Unaudited)

(Dollars in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE RETAINED EARNINGS	INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY DDFP	DEFERRED COMPENSATION DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2011	\$ 832	\$ 1,019,253	\$ 363,011	\$ 9,571	\$ (384,725)	\$ (55,465)	\$ (7,390)	\$ 7,390	\$ 952,477
Net income			18,428						18,428
Other comprehensive income, net of tax				(255)					(255)
Cash dividends declared			(7,330)						(7,330)
Distributions from DDFP							23	(23)	
Purchases of treasury stock					(1,938)				(1,938)
Shares issued dividend reinvestment plan		(746)			3,221				2,475
Allocation of ESOP shares		(115)				700			585
Allocation of SAP shares		944							944
Allocation of stock options		89							89
Balance at March 31, 2012	\$ 832	\$ 1,019,425	\$ 374,109	\$ 9,316	\$ (383,442)	\$ (54,765)	\$ (7,367)	\$ 7,367	\$ 965,475

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY**

Consolidated Statements of Changes in Stockholders' Equity for the Three Months Ended March 31, 2013 and 2012 (Unaudited) (Continued)

(Dollars in thousands)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK	UNALLOCATED ESOP SHARES	COMMON STOCK ACQUIRED BY COMPENSATION DDFP	DEFERRED DDFP	TOTAL STOCKHOLDERS' EQUITY
Balance at December 31, 2012	\$ 832	\$ 1,021,507	\$ 389,549	\$ 7,716	\$ (386,270)	\$ (52,088)	\$ (7,298)	\$ 7,298	\$ 981,246
Net income			17,828						17,828
Other comprehensive income, net of tax				(1,663)					(1,663)
Cash dividends paid			(8,086)						(8,086)
Distributions from DDFP							23	(23)	
Purchases of treasury stock					(839)				(839)
Shares issued dividend reinvestment plan		(44)			345				301
Stock option exercises		(9)			27				18
Allocation of ESOP shares		(81)				708			627
Allocation of SAP shares		942							942
Allocation of stock options		71							71
Balance at March 31, 2013	\$ 832	\$ 1,022,386	\$ 399,291	\$ 6,053	\$ (386,737)	\$ (51,380)	\$ (7,275)	\$ 7,275	\$ 990,445

See accompanying notes to unaudited consolidated financial statements.

**Table of Contents****PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY**

## Consolidated Statements of Cash Flows

Three months ended March 31, 2013 and 2012 (Unaudited)

(Dollars in thousands)

	<b>Three months ended March 31,</b>	
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 17,828	\$ 18,428
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization of intangibles	2,292	2,444
Provision for loan losses	1,500	5,000
Deferred tax expense	1,204	415
Increase in cash surrender value of Bank-owned life insurance	(1,210)	(1,362)
Net amortization of premiums and discounts on securities	3,838	3,713
Accretion of net deferred loan fees	(1,291)	(832)
Amortization of premiums on purchased loans, net	324	427
Net increase in loans originated for sale	(10,446)	(9,355)
Proceeds from sales of loans originated for sale	10,824	9,800
Proceeds from sales of foreclosed assets	2,639	3,657
ESOP expense	627	585
Allocation of stock award shares	916	944
Allocation of stock options	71	89
Net gain on sale of loans	(378)	(445)
Net gain on securities transactions	(511)	(2,183)
Net gain on sale of premises and equipment		42
Net loss (gain) on sale of foreclosed assets	214	(25)
Decrease in accrued interest receivable	1,903	1,952
(Increase) decrease in other assets	(5,026)	2,060
Decrease in other liabilities	(6,475)	(2,917)
<b>Net cash provided by operating activities</b>	<b>18,843</b>	<b>32,437</b>
<b>Cash flows from investing activities:</b>		
Proceeds from maturities, calls and paydowns of investment securities held to maturity	31,731	29,134
Purchases of investment securities held to maturity	(15,789)	(32,662)
Proceeds from sales of securities	7,919	47,131
Proceeds from maturities and paydowns of securities available for sale	106,313	118,432
Purchases of securities available for sale	(71,352)	(190,565)
Purchases of loans	(2,797)	(19,088)
Net (increase) decrease in loans	(4,568)	8,930
Proceeds from sales of premises and equipment		71
Purchases of premises and equipment	(1,165)	(982)
<b>Net cash provided by (used in) by investing activities</b>	<b>50,292</b>	<b>(39,599)</b>
<b>Cash flows from financing activities:</b>		
Net (decrease) increase in deposits	(151,690)	38,277
Increase in mortgage escrow deposits	1,303	2,415
Purchase of treasury stock	(839)	(1,938)
Cash dividends paid to stockholders	(8,086)	(7,330)

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-Q

Shares issued dividend reinvestment plan	301	2,475
Stock options exercised	18	
Proceeds from long-term borrowings	20,000	
Payments on long-term borrowings	(20,406)	(397)
Net increase (decrease) in short-term borrowings	51,148	(26,717)
Net cash (used in) provided by financing activities	(108,251)	6,785
Net decrease in cash and cash equivalents	(39,116)	(377)
Cash and cash equivalents at beginning of period	103,823	69,632
Cash and cash equivalents at end of period	\$ 64,707	\$ 69,255
Cash paid during the period for:		
Interest on deposits and borrowings	\$ 9,508	\$ 12,147
Income taxes	\$ 5,002	\$
Non cash investing activities:		
Transfer of loans receivable to foreclosed assets	\$ 2,676	\$ 5,270

See accompanying notes to unaudited consolidated financial statements

**Table of Contents****PROVIDENT FINANCIAL SERVICES, INC. AND SUBSIDIARY****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****Note 1. Summary of Significant Accounting Policies*****A. Basis of Financial Statement Presentation***

The accompanying unaudited consolidated financial statements include the accounts of Provident Financial Services, Inc. and its wholly owned subsidiary, The Provident Bank (the Bank, together with Provident Financial Services, Inc., the Company).

In preparing the interim unaudited consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statements of financial condition and the results of operations for the periods presented. Actual results could differ from these estimates. The allowance for loan losses is a material estimate that is particularly susceptible to near-term change. The current unstable economic environment has resulted in a heightened degree of uncertainty inherent in this material estimate.

The interim unaudited consolidated financial statements reflect all normal and recurring adjustments, which are, in the opinion of management, considered necessary for a fair presentation of the financial condition and results of operations for the periods presented. The results of operations for the three months ended March 31, 2013 are not necessarily indicative of the results of operations that may be expected for all of 2013.

Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission.

These unaudited consolidated financial statements should be read in conjunction with the December 31, 2012 Annual Report to Stockholders on Form 10-K.

***B. Earnings Per Share***

The following is a reconciliation of the numerators and denominators of the basic and diluted earnings per share calculations:

	For the three months ended March 31,					
	Net Income	2013 Weighted Average Common Shares Outstanding	Per Share Amount	Net Income	2012 Weighted Average Common Shares Outstanding	Per Share Amount
Net income	\$ 17,828			\$ 18,428		
Basic earnings per share:						
Income available to common stockholders	\$ 17,828	57,167,198	\$ 0.31	\$ 18,428	57,051,827	\$ 0.32
Dilutive shares		170,017			30,804	
Diluted earnings per share:						
Income available to common stockholders	\$ 17,828	57,337,215	\$ 0.31	\$ 18,428	57,082,631	\$ 0.32

**Table of Contents**

Anti-dilutive stock options and awards totaling 3,857,542 shares at March 31, 2013, were excluded from the earnings per share calculations.

**Note 2. Investment Securities**

At March 31, 2013, the Company had \$1.22 billion and \$342.7 million in available for sale and held to maturity investment securities, respectively. Many factors, including lack of liquidity in the secondary market for certain securities, variations in pricing information, regulatory actions, changes in the business environment or any changes in the competitive marketplace could have an adverse effect on the Company's investment portfolio which could result in other-than-temporary impairment on certain investment securities in future periods. Included in the Company's investment portfolio are private label mortgage-backed securities. These investments may pose a higher risk of future impairment charges as a result of the uncertain economic environment and the potential negative effect on future performance of these private label mortgage-backed securities. The total number of all held to maturity and available for sale securities in an unrealized loss position as of March 31, 2013 totaled 107, compared with 65 at December 31, 2012. This included 2 private label mortgage-backed securities at March 31, 2013, with an amortized cost of \$639,000 and unrealized losses totaling \$2,000. One of these private label mortgage-backed securities was below investment grade at March 31, 2013. All securities with unrealized losses at March 31, 2013 were analyzed for other-than-temporary impairment. Based upon this analysis, no other-than-temporary impairment existed at March 31, 2013.

**Securities Available for Sale**

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses and the estimated fair value for securities available for sale at March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$ 85,245	504		85,749
Mortgage-backed securities	1,095,139	25,373	(851)	1,119,661
State and municipal obligations	9,428	342		9,770
Equity securities	307	53		360
	\$ 1,190,119	26,272	(851)	1,215,540

	December 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$ 90,443	574		91,017
Mortgage-backed securities	1,134,647	27,934	(256)	1,162,325
State and municipal obligations	9,933	384	(1)	10,316
Equity securities	307	37		344
	\$ 1,235,330	28,929	(257)	1,264,002

**Table of Contents**

The amortized cost and fair value of securities available for sale at March 31, 2013, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	March 31, 2013	
	Amortized Cost	Fair value
Due in one year or less	\$ 32,688	32,769
Due after one year through five years	61,570	62,305
Due after five years through ten years	415	445
Mortgage-backed securities	1,095,139	1,119,661
Equity securities	307	360
	\$ 1,190,119	1,215,540

Proceeds from the sale of securities available for sale for the three months ended March 31, 2013, were \$7,395,000 resulting in gross gains of \$481,000 and no gross losses. For the three months ended March 31, 2012, proceeds from the sale of securities available for sale were \$47,131,000, resulting in gross gains of \$2,160,000 and no gross losses.

The following table presents a roll-forward of the credit loss component of other-than-temporary impairment ( OTTI ) on debt securities for which a non-credit component of OTTI was recognized in other comprehensive income. OTTI recognized in earnings after that date for credit-impaired debt securities is presented as an addition in two components, based upon whether the current period is the first time a debt security was credit-impaired (initial credit impairment), or whether the current period is not the first time a debt security was credit impaired (subsequent credit impairment). Changes in the credit loss component of credit-impaired debt securities were as follows (in thousands):

	Three months ended March 31,	
	2013	2012
Beginning credit loss amount	\$ 1,240	1,240
Add: Initial OTTI credit losses		
Subsequent OTTI credit losses		
Less: Realized losses for securities sold		
Securities intended or required to be sold		
Increases in expected cash flows on debt securities		
Ending credit loss amount	\$ 1,240	1,240

The Company did not incur an OTTI charge on securities for the three months ended March 31, 2013 or 2012, respectively.

The following table represents the Company's disclosure regarding securities available for sale with temporary impairment at March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013 Unrealized Losses				Total	
	Less than 12 months		12 months or longer		Fair value	Gross unrealized losses
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses		
Mortgage-backed securities	\$ 195,722	(847)	4,164	(4)	199,886	(851)

\$ 195,722	(847)	4,164	(4)	199,886	(851)
------------	-------	-------	-----	---------	-------



**Table of Contents**

	December 31, 2012 Unrealized Losses				Total	
	Less than 12 months		12 months or longer			
	Fair Value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
Mortgage-backed securities	\$ 59,521	(205)	11,012	(51)	70,533	(256)
State and municipal obligations			503	(1)	503	(1)
	\$ 59,521	(205)	11,515	(52)	71,036	(257)

The temporary loss position associated with securities available for sale was the result of changes in market interest rates relative to the coupon of the individual security and changes in credit spreads. In addition, there remains a lack of liquidity in certain sectors of the mortgage-backed securities market. Increases in delinquencies and foreclosures have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company does not have the intent to sell securities in a temporary loss position at March 31, 2013, nor is it more likely than not that the Company will be required to sell the securities before the anticipated recovery.

The number of securities in an unrealized loss position as of March 31, 2013 totaled 16, compared with 9 at December 31, 2012. There were 2 private label mortgage-backed securities in an unrealized loss position at March 31, 2013, with an amortized cost of \$639,000 and unrealized losses totaling \$2,000. One of these private label mortgage-backed securities was below investment grade at March 31, 2013.

The Company estimates the loss projections for each security by stressing the individual loans collateralizing the security and applying a range of expected default rates, loss severities, and prepayment speeds in conjunction with the underlying credit enhancement for each security. Based on specific assumptions about collateral and vintage, a range of possible cash flows was identified to determine whether other-than-temporary impairment existed during the three months ended March 31, 2013. The Company concluded that no other-than-temporary impairment of the securities available for sale portfolio existed at March 31, 2013.

**Investment Securities Held to Maturity**

The following table presents the amortized cost, gross unrealized gains, gross unrealized losses and the estimated fair value for investment securities held to maturity at March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$ 5,105	28		5,133
Mortgage-backed securities	9,230	414		9,644
State and municipal obligations	318,591	13,130	(1,280)	330,441
Corporate obligations	9,770	161	(5)	9,926
	\$ 342,696	13,733	(1,285)	355,144

	December 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Agency obligations	\$ 4,705	34		4,739
Mortgage-backed securities	11,123	460		11,583
State and municipal obligations	336,078	15,332	(585)	350,825
Corporate obligations	7,558	211		7,769
	\$ 359,464	16,037	(585)	374,916



**Table of Contents**

The Company generally purchases securities for long-term investment purposes, and differences between amortized cost and fair values may fluctuate during the investment period. For the three months ended March 31, 2013, the Company recognized gross gains of \$13,000 and gross losses of 2,000, related to calls on certain securities in the held to maturity portfolio, with proceeds from the calls totaling \$9,209,000. In addition, the Company recognized gross gains of \$19,000 and no gross losses related to sales on certain securities, with the proceeds totaling \$524,000. The sales of these securities were in response to the credit deterioration of the issuers. For the three months ended March 31, 2012, the Company recognized gains of \$23,000 related to calls on certain securities in the held to maturity portfolio, with proceeds from the calls totaling \$2,731,000. There were no sales of securities for the three months ended March 31, 2012.

The amortized cost and fair value of investment securities at March 31, 2013 by contractual maturity are shown below (in thousands). Expected maturities may differ from contractual maturities due to prepayment or early call privileges of the issuer.

	March 31, 2013	
	Amortized cost	Fair value
Due in one year or less	\$ 27,041	27,282
Due after one year through five years	74,978	76,840
Due after five years through ten years	94,116	100,235
Due after ten years	137,331	141,143
Mortgage-backed securities	9,230	9,644
	\$ 342,696	355,144

The following table represents the Company's disclosure on investment securities held to maturity with temporary impairment at March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
State and municipal obligations	\$ 49,808	(1,257)	1,078	(23)	50,886	(1,280)
Corporate obligations	1,942	(5)			1,942	(5)
	\$ 52,250	(1,262)	1,078	(23)	53,328	(1,285)

	December 31, 2012 Unrealized Losses					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Gross unrealized losses	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
State and municipal obligations	\$ 30,992	(585)			30,992	(585)
	\$ 30,992	(585)			30,992	(585)

Based upon the review of the held to maturity securities portfolio, the Company believes that as of March 31, 2013, securities with unrealized loss positions shown above do not represent impairments that are other-than-temporary. The review of the portfolio for other-than-temporary impairment considers the percentage and length of time the fair value of an investment is below book value, as well as general market conditions, changes in interest rates, credit risks, whether the Company has the intent to sell the securities and whether it is more likely than not that the Company would be required to sell the securities before the anticipated recovery.

## Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-Q

The number of securities in an unrealized loss position as of March 31, 2013 totaled 91, compared with 56 at December 31, 2012. All temporarily impaired investment securities were investment grade at March 31, 2013.

**Table of Contents**

**Note 3. Loans Receivable and Allowance for Loan Losses**

Loans receivable at March 31, 2013 and December 31, 2012 are summarized as follows (in thousands):

	March 31, 2013	December 31, 2012
Mortgage loans:		
Residential	\$ 1,234,173	1,265,015
Commercial	1,349,565	1,349,950
Multi-family	743,356	723,958
Construction	135,611	120,133
Total mortgage loans	3,462,705	3,459,056
Commercial loans	874,880	866,395
Consumer loans	573,784	579,166
Total gross loans	4,911,369	4,904,617
Premiums on purchased loans	4,683	4,964
Unearned discounts	(73)	(78)
Net deferred fees	(5,624)	(4,804)
	<b>\$ 4,910,355</b>	<b>4,904,699</b>

The following table summarizes the aging of loans receivable by portfolio segment and class as follows (in thousands):

	At March 31, 2013						Recorded Investment > 90 days accruing
	30-59 Days	60-89 Days	Non-accrual	Total Past		Total Loans Receivable	
				Due and Non-accrual	Current		
Mortgage loans:							
Residential	\$ 14,404	6,043	31,634	52,081	1,182,092	1,234,173	
Commercial	7,913		29,543	37,456	1,312,109	1,349,565	
Multi-family			412	412	742,944	743,356	
Construction			8,786	8,786	126,825	135,611	
Total mortgage loans	22,317	6,043	70,375	98,735	3,363,970	3,462,705	
Commercial loans	4,256	113	23,586	27,955	846,925	874,880	
Consumer loans	2,981	1,423	5,098	9,502	564,282	573,784	
Total loans	\$ 29,554	7,579	99,059	136,192	4,775,177	4,911,369	
	At December 31, 2012						Recorded Investment > 90 days accruing
	30-59 Days	60-89 Days	Non-accrual	Total Past		Total Loans Receivable	
				Due and Non-accrual	Current		
Mortgage loans:							
Residential	\$ 15,752	11,986	29,293	57,031	1,207,984	1,265,015	
Commercial	535	12,194	29,072	41,801	1,308,149	1,349,950	

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-Q

Multi-family			412	412	723,546	723,958
Construction			8,896	8,896	111,237	120,133
Total mortgage loans	16,287	24,180	67,673	108,140	3,350,916	3,459,056
Commercial loans	1,840	70	25,467	27,377	839,018	866,395
Consumer loans	4,144	1,808	5,850	11,802	567,364	579,166
Total loans	\$ 22,271	26,058	98,990	147,319	4,757,298	4,904,617

## **Table of Contents**

Included in loans receivable are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The principal amounts of these non-accrual loans were \$99.1 million and \$99.0 million at March 31, 2013 and December 31, 2012, respectively. Included in non-accrual loans were \$30.8 million and \$33.0 million of loans which were less than 90 days past due at March 31, 2013 and December 31, 2012, respectively. There were no loans ninety days or greater past due and still accruing interest at March 31, 2013, or December 31, 2012.

The Company defines an impaired loan as a non-homogenous loan greater than \$1.0 million for which it is probable, based on current information, all amounts due under the contractual terms of the loan agreement will not be collected. Impaired loans also include all loans modified as troubled debt restructurings ( TDRs ). A loan is deemed to be a TDR when a loan modification resulting in a concession is made in an effort to mitigate potential loss arising from a borrower's financial difficulty. Smaller balance homogeneous loans, including residential mortgages and other consumer loans, are evaluated collectively for impairment and are excluded from the definition of impaired loans, unless modified as TDRs. The Company separately calculates the reserve for loan losses on impaired loans. The Company may recognize impairment of a loan based upon (1) the present value of expected cash flows discounted at the effective interest rate; or (2) if a loan is collateral dependent, the fair value of collateral; or (3) the market price of the loan. Additionally, if impaired loans have risk characteristics in common, those loans may be aggregated and historical statistics may be used as a means of measuring those impaired loans.

The Company uses third-party appraisals to determine the fair value of the underlying collateral in its analyses of collateral dependent impaired loans. A third party appraisal is generally ordered as soon as a loan is designated as a collateral dependent impaired loan and is updated annually or more frequently, if required.

A specific allocation of the allowance for loan losses is established for each collateral dependent impaired loan with a carrying balance greater than the collateral's fair value, less estimated costs to sell. Charge-offs are generally taken for the amount of the specific allocation when operations associated with the respective property cease and it is determined that collection of amounts due will be derived primarily from the disposition of the collateral. At each fiscal quarter end, if a loan is designated as a collateral dependent impaired loan and the third party appraisal has not yet been received, an evaluation of all available collateral is made using the best information available at the time, including rent rolls, borrower financial statements and tax returns, prior appraisals, management's knowledge of the market and collateral, and internally prepared collateral valuations based upon market assumptions regarding vacancy and capitalization rates, each as and where applicable. Once the appraisal is received and reviewed, the specific reserves are adjusted to reflect the appraised value. The Company believes there have been no significant time lapses as a result of this the process.

At March 31, 2013, there were 126 impaired loans totaling \$112.0 million. Included in this total were 96 TDRs related to 86 borrowers totaling \$59.0 million that were performing in accordance with their restructured terms and which continued to accrue interest at March 31, 2013. At December 31, 2012, there were 108 impaired loans totaling \$109.6 million. Included in this total were 80 TDRs to 70 borrowers totaling \$58.4 million that were performing in accordance with their restructured terms and which continued to accrue interest at December 31, 2012.

**Table of Contents**

Loans receivable summarized by portfolio segment and impairment method are as follows (in thousands):

	<b>At March 31, 2013</b>			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	\$ 81,301	29,212	1,524	112,037
Collectively evaluated for impairment	3,381,404	845,668	572,260	4,799,332
<b>Total</b>	<b>\$ 3,462,705</b>	<b>874,880</b>	<b>573,784</b>	<b>4,911,369</b>

	<b>At December 31, 2012</b>			
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments
Individually evaluated for impairment	\$ 78,525	29,807	1,298	109,630
Collectively evaluated for impairment	3,380,531	836,588	577,868	4,794,987
<b>Total</b>	<b>\$ 3,459,056</b>	<b>866,395</b>	<b>579,166</b>	<b>4,904,617</b>

The allowance for loan losses is summarized by portfolio segment and impairment classification as follows (in thousands):

	<b>At March 31, 2013</b>					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Individually evaluated for impairment	\$ 5,353	1,161	106	6,620		6,620
Collectively evaluated for impairment	31,040	22,340	4,715	58,095	5,319	63,414
<b>Total</b>	<b>\$ 36,393</b>	<b>23,501</b>	<b>4,821</b>	<b>64,715</b>	<b>5,319</b>	<b>70,034</b>

	<b>At December 31, 2012</b>					
	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
Individually evaluated for impairment	\$ 5,172	1,949	90	7,211		7,211
Collectively evaluated for impairment	32,790	18,366	5,134	56,290	6,847	63,137
<b>Total</b>	<b>\$ 37,962</b>	<b>20,315</b>	<b>5,224</b>	<b>63,501</b>	<b>6,847</b>	<b>70,348</b>

Loan modifications to borrowers experiencing financial difficulties that are considered TDRs primarily involve lowering the monthly payments on such loans through either a reduction in interest rate below a market rate, an extension of the term of the loan without a corresponding adjustment to the risk premium reflected in the interest rate, or a combination of these two methods. These modifications generally do not result in the forgiveness of principal or accrued interest. In addition, the Company attempts to obtain additional collateral or guarantor support when modifying such loans. If the borrower has demonstrated performance under the previous terms and our underwriting process shows the borrower has the capacity to continue to perform under the restructured terms, the loan will continue to accrue interest. Non-accruing restructured loans may be returned to accrual status when there has been a sustained period of repayment performance (generally six consecutive months of payments) and both principal and interest are deemed collectible.



## Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-Q

The following tables present the number of loans modified as TDRs during the three months ended March 31, 2013 and 2012 and their balances immediately prior to the modification date and post-modification as of March 31, 2013 and 2012.

**Table of Contents**

Troubled Debt Restructurings	Number of Loans	Three Months Ended March 31, 2013	
		Pre-Modification Outstanding Recorded Investment (\$ in thousands)	Post-Modification Outstanding Recorded Investment
Mortgage loans:			
Residential	15	\$ 2,802	2,882
Commercial	1	329	308
Total mortgage loans	16	3,131	3,190
Consumer loans	3	240	244
Total restructured loans	19	\$ 3,371	3,434

Troubled Debt Restructurings	Number of Loans	Three Months Ended March 31, 2012	
		Pre-Modification Outstanding Recorded Investment (\$ in thousands)	Post-Modification Outstanding Recorded Investment
Mortgage loans:			
Residential	5	\$ 1,173	1,008
Total mortgage loans	5	1,173	1,008
Commercial loans	3	10,261	10,261
Consumer loans	1	54	54
Total restructured loans	9	\$ 11,488	11,323

All TDRs are impaired loans, which are individually evaluated for impairment, as previously discussed. Estimated collateral values of collateral dependent impaired loans modified during the three months ended March 31, 2013 and 2012 exceeded the carrying amounts of such loans. As a result, there were no charge-offs recorded on collateral dependent impaired loans presented in the preceding tables for the three months ended March 31, 2013 and 2012. The allowance for loan losses associated with the TDRs presented in the preceding tables totaled \$380,000 and \$746,000 at March 31, 2013 and 2012, respectively, and were included in the allowance for loan losses for loans individually evaluated for impairment.

The TDRs presented in the preceding tables had weighted average modified interest rates of 4.30%, and 5.45%, compared to weighted average rates of 5.90% and 6.45% prior to modification for the three months ended March 31, 2013 and 2012, respectively.

The following table presents loans modified as TDRs within the previous 12 months from March 31, 2013 and 2012, and for which there was a payment default (90 days or more past due) during the three months ended March 31, 2013 and 2012.

Troubled Debt Restructurings	For the three months ended			
	March 31, 2013		March 31, 2012	
Subsequently Defaulted	Number of Loans	Outstanding Recorded Investment (\$ in thousands)	Number of Loans	Outstanding Recorded Investment (\$ in thousands)
Mortgage loans:				
Residential	1	\$ 1,785	4	\$ 791
Total mortgage loans	1	1,785	4	791

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-Q

Consumer loans			1		44
Total restructured loans	1	\$	1,785	5	\$ 835

TDRs that subsequently default are considered collateral dependent impaired loans and are evaluated for impairment based on the estimated fair value of the underlying collateral less expected selling costs.

**Table of Contents**

The activity in the allowance for loan losses by portfolio segment for the three months ended March 31, 2013 and 2012 are as follows (in thousands):

Three Months Ended March 31,	Mortgage loans	Commercial loans	Consumer loans	Total Portfolio Segments	Unallocated	Total
<b>2013</b>						
Balance at beginning of period	\$ 37,962	20,315	5,224	63,501	6,847	70,348
Provision charged to operations	(823)	3,853	(2)	3,028	(1,528)	1,500
Recoveries of loans previously charged off	229	113	243	585		585
Loans charged off	(975)	(780)	(644)	(2,399)		(2,399)
Balance at end of period	\$ 36,393	23,501	4,821	64,715	5,319	70,034
<b>2012</b>						
Balance at beginning of period	\$ 39,443	25,381	5,515	70,339	4,012	74,351
Provision charged to operations	(618)	(1,037)	1,099	(556)	5,556	5,000
Recoveries of loans previously charged off	41	197	245	483		483
Loans charged off	(1,183)	(3,579)	(1,076)	(5,838)		(5,838)
Balance at end of period	\$ 37,683	20,962	5,783	64,428	9,568	73,996

**Table of Contents**

Impaired loans receivable by class are summarized as follows (in thousands):

	At March 31, 2013					At December 31, 2012				
	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>Loans with no related allowance</b>										
Mortgage loans:										
Residential	\$ 7,914	5,835		5,855	73	7,241	5,309		5,395	155
Commercial	17,652	14,091		14,330		17,656	14,104		16,579	82
Multi-family										
Construction	9,811	8,786		8,830		9,810	8,896		9,738	
<b>Total</b>	<b>35,377</b>	<b>28,712</b>		<b>29,015</b>	<b>73</b>	<b>34,707</b>	<b>28,309</b>		<b>31,712</b>	<b>237</b>
Commercial loans	18,271	16,191		16,486	53	7,252	6,117		7,064	53
Consumer loans	276	185		276		84	58		71	2
<b>Total loans</b>	<b>53,924</b>	<b>45,088</b>		<b>45,777</b>	<b>126</b>	<b>42,043</b>	<b>34,484</b>		<b>38,847</b>	<b>292</b>
<b>Loans with an allowance recorded</b>										
Mortgage loans:										
Residential	\$ 16,532	15,411	2,186	15,434	137	14,139	13,133	1,805	13,206	378
Commercial	37,936	37,178	3,167	37,271	245	37,739	37,083	3,367	37,490	990
Multi-family										
Construction										
<b>Total</b>	<b>54,468</b>	<b>52,589</b>	<b>5,353</b>	<b>52,705</b>	<b>382</b>	<b>51,878</b>	<b>50,216</b>	<b>5,172</b>	<b>50,696</b>	<b>1,368</b>
Commercial loans	13,021	13,021	1,161	13,126	121	24,545	23,690	1,949	24,777	689
Consumer loans	1,377	1,339	106	1,382	16	1,277	1,240	90	1,291	46
<b>Total loans</b>	<b>\$ 68,866</b>	<b>66,949</b>	<b>6,620</b>	<b>67,213</b>	<b>519</b>	<b>77,700</b>	<b>75,146</b>	<b>7,211</b>	<b>76,764</b>	<b>2,103</b>
<b>Total</b>										
Mortgage loans:										
Residential	\$ 24,446	21,246	2,186	21,289	210	21,380	18,442	1,805	18,601	533
Commercial	55,588	51,269	3,167	51,601	245	55,395	51,187	3,367	54,069	1,072
Multi-family										
Construction	9,811	8,786		8,830		9,810	8,896		9,738	
<b>Total</b>	<b>89,845</b>	<b>81,301</b>	<b>5,353</b>	<b>81,720</b>	<b>455</b>	<b>86,585</b>	<b>78,525</b>	<b>5,172</b>	<b>82,408</b>	<b>1,605</b>
Commercial loans	31,292	29,212	1,161	29,612	174	31,797	29,807	1,949	31,841	742
Consumer loans	1,653	1,524	106	1,658	16	1,361	1,298	90	1,362	48
<b>Total loans</b>	<b>\$ 122,790</b>	<b>112,037</b>	<b>6,620</b>	<b>112,990</b>	<b>645</b>	<b>119,743</b>	<b>109,630</b>	<b>7,211</b>	<b>115,611</b>	<b>2,395</b>

Specific allocations of the allowance for loan losses attributable to impaired loans totaled \$6,620,000 and \$7,211,000 at March 31, 2013 and December 31, 2012, respectively. At March 31, 2013 and December 31, 2012, impaired loans for which there was no related allowance for loan losses totaled \$45,088,000 and \$34,484,000, respectively. The average balance of impaired loans during the three months ended March 31, 2013 was \$112,990,000.

The Company utilizes an internal nine-point risk rating system to summarize its loan portfolio into categories with similar characteristics. Loans deemed to be acceptable quality (pass) are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans that are deemed to

## Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-Q

be of questionable quality are rated 5 (watch) or 6 (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. Commercial mortgage, commercial, multi-family and construction loans are rated individually, and each lending officer is responsible for risk rating loans in their portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and by Credit Administration. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third party. Reports concerning periodic loan review examinations by the independent third party are presented directly to both the Audit and Risk Committees of the Board of Directors.

**Table of Contents**

Loans receivable by credit quality risk rating indicator are as follows (in thousands):

	At March 31, 2013							
	Residential	Commercial mortgage	Multi-family	Construction	Total mortgages	Commercial	Consumer	Total loans
Special mention	\$ 6,043	12,323			18,366	16,955	1,423	36,744
Substandard	31,634	66,457	412	8,786	107,289	62,710	4,795	174,794
Doubtful								
Loss								
Total classified and criticized	37,677	78,780	412	8,786	125,655	79,665	6,218	211,538
Pass/Watch	1,196,496	1,270,785	742,944	126,825	3,337,049	795,215	567,566	4,699,830
Total outstanding loans	\$ 1,234,173	1,349,565	743,356	135,611	3,462,705	874,880	573,784	4,911,369

	At December 31, 2012							
	Residential	Commercial mortgage	Multi-family	Construction	Total mortgages	Commercial	Consumer	Total loans
Special mention	\$ 11,986	14,816			26,802	17,076	1,808	45,686
Substandard	29,293	79,235	412	13,642	122,582	54,200	5,666	182,448
Doubtful						464		464
Loss								
Total classified and criticized	41,279	94,051	412	13,642	149,384	71,740	7,474	228,598
Pass/Watch	1,223,736	1,255,899	723,546	106,491	3,309,672	794,655	571,692	4,676,019
Total outstanding loans	\$ 1,265,015	1,349,950	723,958	120,133	3,459,056	866,395	579,166	4,904,617

**Note 4. Deposits**

Deposits at March 31, 2013 and December 31, 2012 are summarized as follows (in thousands):

	March 31, 2013	December 31, 2012
Savings	\$ 925,274	914,787
Money market	1,338,437	1,357,046
NOW	1,304,215	1,334,813
Non-interest bearing	792,977	864,152
Certificates of deposit	915,678	957,473
	\$ 5,276,581	5,428,271

**Note 5. Components of Net Periodic Benefit Cost**

The Bank has a noncontributory defined benefit pension plan (the Plan) covering its full-time employees who had attained age 21 with at least one year of service as of April 1, 2003. The Plan was frozen on April 1, 2003. All participants in the Plan are 100% vested. The Plan's assets are invested in investment funds and group annuity contracts currently managed by the Principal Financial Group and Allmerica Financial.

In addition to pension benefits, certain health care and life insurance benefits are currently made available to certain of the Bank's retired employees. The costs of such benefits are accrued based on actuarial assumptions from the date of hire to the date the employee became fully

## Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-Q

eligible to receive the benefits. Effective January 1, 2003, eligibility for retiree health care benefits was frozen to new entrants and benefits were eliminated for employees with less than ten years of service as of December 31, 2002. Effective January 1, 2007, eligibility for retiree life insurance benefits was frozen as to new entrants, and retiree life insurance benefits were eliminated for employees with less than ten years of service as of December 31, 2006.



**Table of Contents**

Net periodic benefit cost (increase) for pension benefits and other post-retirement benefits for the three months ended March 31, 2013 and 2012 includes the following components (in thousands):

	Pension benefits		Other post-retirement benefits	
	2013	2012	2013	2012
Service cost	\$		60	63
Interest cost	318	322	245	261
Expected return on plan assets	(792)	(645)		
Amortization of prior service cost			(1)	(1)
Amortization of the net gain (loss)	338	357	4	3
Net periodic benefit cost (increase)	\$ (136)	34	308	326

In its consolidated financial statements for the year ended December 31, 2012, the Company previously disclosed that it does not expect to contribute to the Plan in 2013. As of March 31, 2013, no contributions to the Plan have been made.

The net periodic benefit cost (increase) for pension benefits and other post-retirement benefits for the three months ended March 31, 2013 were calculated using the actual January 1, 2013 pension valuation and the estimated results of the other post-retirement benefits January 1, 2013 valuations.

**Note 6. Impact of Recent Accounting Pronouncements**

The Financial Accounting Standards Board ( FASB ) in January 2013 issued Accounting Standards Update ( ASU ) No. 2013-01, Scope of Disclosures about Offsetting Assets and Liabilities , which clarifies the scope of the new offsetting disclosures required under ASU 2011-11. It is limited to (1) derivatives, (2) repurchase and reverse repurchase agreements, and (3) securities borrowing and lending transactions, that are either: offset in the statement of financial positions in accordance with ASC 210, Balance Sheet Presentation , or ASC 815, Derivatives and Hedging , or subject to an enforceable master netting arrangement or similar agreement regardless of whether they are presented net in the financial statements. This ASU is effective for annual and interim reporting periods beginning on or after January 1, 2013. This guidance did not have a significant impact on the Company s consolidated financial statements.

In February 2013, the FASB issued ASU No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income , which requires disclosure of the effects of reclassifications out of accumulated other comprehensive income ( AOCI ) on net income line items only for those items that are reported in their entirety in net income in the period of reclassification. For AOCI reclassification items that are not reclassified in their entirety into net income, a cross reference to other required U.S. GAAP disclosures. This guidance was effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The Company adopted this guidance, as required, for the quarter ended March 31, 2013.

## **Table of Contents**

### **Note 7. Fair Value Measurements**

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The determination of fair values of financial instruments often requires the use of estimates. Where quoted market values in an active market are not readily available, the Company utilizes various valuation techniques to estimate fair value.

Fair value is an estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. However, in many instances fair value estimates may not be substantiated by comparison to independent markets and may not be realized in an immediate sale of the financial instrument.

GAAP establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are as follows:

- Level 1: Unadjusted quoted market prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability; and
- Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The valuation techniques are based upon the unpaid principal balance only, and exclude any accrued interest or dividends at the measurement date. Interest income and expense and dividend income are recorded within the consolidated statements of income depending on the nature of the instrument using the effective interest method based on acquired discount or premium.

#### ***Assets Measured at Fair Value on a Recurring Basis***

The valuation techniques described below were used to measure fair value of financial instruments in the table below on a recurring basis as of March 31, 2013 and December 31, 2012.

#### ***Securities Available for Sale***

For securities available for sale, fair value was estimated using a market approach. The majority of the Company's securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to benchmark or to comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the

**Table of Contents**

reasonableness of the reported prices. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service. The Company also may hold equity securities and debt instruments issued by the U.S. government and U.S. government-sponsored agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 inputs.

**Assets Measured at Fair Value on a Non-Recurring Basis**

The valuation techniques described below were used to estimate fair value of financial instruments measured on a non-recurring basis as of March 31, 2013 and December 31, 2012.

For loans measured for impairment based on the fair value of the underlying collateral, fair value was estimated using a market approach. The Company measures the fair value of collateral underlying impaired loans primarily through obtaining independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case-by-case basis, to comparable assets based on the appraisers' market knowledge and experience, as well as adjustments for estimated costs to sell of up to 6%. The Company classifies these loans as Level 3 within the fair value hierarchy.

Assets acquired through foreclosure or deed in lieu of foreclosure are carried at fair value, less estimated costs to sell of up to 6%. Fair value is generally based on independent appraisals that rely upon quoted market prices for similar assets in active markets. These appraisals include adjustments, on an individual case basis, to comparable assets based on the appraisers' market knowledge and experience, and are classified as Level 3. When an asset is acquired, the excess of the loan balance over fair value, less estimated costs to sell, is charged to the allowance for loan losses. A reserve for foreclosed assets may be established to provide for possible write-downs and selling costs that occur subsequent to foreclosure. Foreclosed assets are carried net of the related reserve. Operating results from real estate owned, including rental income, operating expenses, and gains and losses realized from the sales of real estate owned, are recorded as incurred.

There were no changes to the valuation techniques for fair value measurements as of March 31, 2013 and December 31, 2012.

The following tables present the assets and liabilities reported on the consolidated statements of financial condition at their fair values as of March 31, 2013 and December 31, 2012, by level within the fair value hierarchy.

(Dollars in thousands)	Fair Value Measurements at Reporting Date Using:			
	March 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Measured on a recurring basis:</b>				
Securities available for sale:				
Agency obligations	\$ 85,749	85,749		
Mortgage-backed securities	1,119,661		1,119,661	
State and municipal obligations	9,770		9,770	
Equity securities	360	360		
	\$ 1,215,540	86,109	1,129,431	
<b>Measured on a non-recurring basis:</b>				
Loans measured for impairment based on the fair value of the underlying collateral	\$ 46,450			46,450
Foreclosed assets	12,192			12,192
	\$ 58,652			58,652

**Table of Contents**

(Dollars in thousands)	<b>Fair Value Measurements at Reporting Date Using:</b>			
	December 31, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Measured on a recurring basis:</b>				
Securities available for sale:				
Agency obligations	\$ 91,017	91,017		
Mortgage-backed securities	1,162,325		1,162,325	
State and municipal obligations	10,316		10,316	
Equity securities	344	344		
	<b>\$ 1,264,002</b>	<b>91,361</b>	<b>1,172,641</b>	
<b>Measured on a non-recurring basis:</b>				
Loans measured for impairment based on the fair value of the underlying collateral				
	\$ 43,251			43,251
Foreclosed assets	12,473			12,473
	<b>\$ 55,724</b>			<b>55,724</b>

There were no transfers between Level 1 and Level 2 during the three months ended March 31, 2013.

**Other Fair Value Disclosures**

The Company is required to disclose estimated fair value of financial instruments, both assets and liabilities on and off the balance sheet, for which it is practicable to estimate fair value. The following is a description of valuation methodologies used for those assets and liabilities.

**Cash and Cash Equivalents**

For cash and due from banks, federal funds sold and short-term investments, the carrying amount approximates fair value.

**Investment Securities Held to Maturity**

For investment securities held to maturity, fair value was estimated using a market approach. The majority of the Company's securities are fixed income instruments that are not quoted on an exchange, but are traded in active markets. Prices for these instruments are obtained through third party data service providers or dealer market participants with which the Company has historically transacted both purchases and sales of securities. Prices obtained from these sources include market quotations and matrix pricing. Matrix pricing, a Level 2 input, is a mathematical technique used principally to value certain securities to benchmark or comparable securities. The Company evaluates the quality of Level 2 matrix pricing through comparison to similar assets with greater liquidity and evaluation of projected cash flows. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to a secondary pricing source. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. The Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services has not historically resulted in adjustment in the prices obtained from the pricing service. The Company also holds debt instruments issued by the U.S. government and U.S. government agencies that are traded in active markets with readily accessible quoted market prices that are considered Level 1 within the fair value hierarchy.

## **Table of Contents**

### ***FHLB-NY Stock***

The carrying value of FHLB-NY stock was its cost. The fair value of FHLB-NY stock is based on redemption at par value. The Company classifies the estimated fair value as Level 1 within the fair value hierarchy.

### ***Loans***

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial mortgage, residential mortgage, commercial, construction and consumer. Each loan category is further segmented into fixed and adjustable rate interest terms and into performing and non-performing categories. The fair value of performing loans was estimated using a combination of techniques, including a discounted cash flow model that utilizes a discount rate that reflects the Company's current pricing for loans with similar characteristics and remaining maturity, adjusted by an amount for estimated credit losses inherent in the portfolio at the balance sheet date. The rates take into account the expected yield curve, as well as an adjustment for prepayment risk, when applicable. The Company classifies the estimated fair value of its loan portfolio as Level 3.

The fair value for significant non-performing loans was based on recent external appraisals of collateral securing such loans, adjusted for the timing of anticipated cash flows. The Company classifies the estimated fair value of its non-performing loan portfolio as Level 3.

### ***Deposits***

The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits and savings deposits, was equal to the amount payable on demand and classified as Level 1. The estimated fair value of certificates of deposit was based on the discounted value of contractual cash flows. The discount rate was estimated using the Company's current rates offered for deposits with similar remaining maturities. The Company classifies the estimated fair value of its certificates of deposit portfolio as Level 2.

### ***Borrowed Funds***

The fair value of borrowed funds was estimated by discounting future cash flows using rates available for debt with similar terms and maturities and is classified by the Company as Level 2 within the fair value hierarchy.

### ***Commitments to Extend Credit and Letters of Credit***

The fair value of commitments to extend credit and letters of credit was estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value estimates of commitments to extend credit and letters of credit are deemed immaterial.

### ***Limitations***

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

**Table of Contents**

Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments.

Significant assets and liabilities that are not considered financial assets or liabilities include goodwill and other intangibles, deferred tax assets and premises and equipment. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

The following tables present the Company's financial instruments at their carrying and fair values as of March 31, 2013 and December 31, 2012. Fair values are presented by level within the fair value hierarchy.

(Dollars in thousands)	Carrying value	Fair value	Fair Value Measurements at March 31, 2013 Using:		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 64,707	64,707	64,707		
Securities available for sale:					
Agency obligations	85,749	85,749	85,749		
Mortgage-backed securities	1,119,661	1,119,661		1,119,661	
State and municipal obligations	9,770	9,770		9,770	
Equity securities	360	360	360		
Total securities available for sale	\$ 1,215,540	1,215,540	86,109	1,129,431	
Investment securities held to maturity:					
Agency obligations	\$ 5,105	5,133	5,133		
Mortgage-backed securities	9,230	9,644		9,644	
State and municipal obligations	318,591	330,441		330,441	
Corporate obligations	9,770	9,926		9,926	
Total securities held to maturity	\$ 342,696	355,144	5,133	350,011	
FHLB-NY stock	40,675	40,675	40,675		
Loans, net of allowance for loan losses	4,840,321	5,028,118			5,028,118
<b>Financial liabilities:</b>					
Deposits other than certificates of deposits	\$ 4,360,903	4,360,903	4,360,903		
Certificates of deposit	915,678	925,321		925,321	
	5,276,581	5,286,224	4,360,903	925,321	
Borrowings	\$ 854,007	883,441		883,441	

**Table of Contents**

(Dollars in thousands)	Carrying value	Fair value	Fair Value Measurements at December 31, 2012 Using:		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial assets:</b>					
Cash and cash equivalents	\$ 103,823	103,823	103,823		
Securities available for sale:					
Agency obligations	91,017	91,017	91,017		
Mortgage-backed securities	1,162,325	1,162,325		1,162,325	
State and municipal obligations	10,316	10,316		10,316	
Equity securities	344	344	344		
Total securities available for sale	\$ 1,264,002	1,264,002	91,361	1,172,641	
Investment securities held to maturity:					
Agency obligations	\$ 4,705	4,739	4,739		
Mortgage-backed securities	11,123	11,583		11,583	
State and municipal obligations	336,078	350,825		350,825	
Corporate obligations	7,558	7,769		7,769	
Total securities held to maturity	\$ 359,464	374,916	4,739	370,177	
FHLB-NY stock	37,543	37,543	37,543		
Loans, net of allowance for loan losses	4,834,351	5,025,700			5,025,700
<b>Financial liabilities:</b>					
Deposits other than certificates of deposits.	\$ 4,470,798	4,470,483	4,470,483		
Certificates of deposit	957,473	968,668		968,668	
Total deposits	\$ 5,428,271	5,439,151	4,470,483	968,668	
Borrowings	\$ 803,264	834,244		834,244	

**Note 8. Other Comprehensive Income (Loss)**

The following table presents the components of other comprehensive income (loss) both gross and net of tax, for the three months ended March 31, 2013 and 2012 (in thousands):

	Three months ended March 31,					
	Before Tax	2013 Tax Effect	After Tax	Before Tax	2012 Tax Effect	After Tax
<b>Components of Other Comprehensive Income (Loss):</b>						
<b>Unrealized gains and losses on securities available for sale:</b>						
Net (losses) gains arising during the period	\$ (2,739)	1,119	(1,620)	\$ 2,407	(983)	1,424
Reclassification adjustment for gains included in net income	(511)	209	(302)	(2,183)	892	(1,291)
Total	(3,250)	1,328	(1,922)	224	(91)	133
<b>Amortization related to post retirement obligations</b>	438	(179)	259	(656)	268	(388)
Total other comprehensive (loss) income	\$ (2,812)	1,149	(1,663)	\$ (432)	177	(255)





**Table of Contents**

The following table presents the changes in the components of accumulated other comprehensive income, net of tax, for the three months ended March 31, 2013 (in thousands):

	Changes in Accumulated Other Comprehensive Income by Component, net of tax:		
	Unrealized Gains on Securities Available for Sale	Post Retirement Obligations	Accumulated Other Comprehensive Income
Balance at December 31, 2012	\$ 16,961	(9,245)	7,716
Current - period other comprehensive (loss) income	(1,922)	259	(1,663)
Balance at March 31, 2013	\$ 15,039	(8,986)	6,053

The following table summarizes the reclassifications out of accumulated other comprehensive income for the three months ended March 31, 2013 (in thousands):

Details of Accumulated Other Comprehensive Income ( AOCI )	Reclassifications Out of Accumulated Other Comprehensive Income for the Three Months Ended March 31, 2013	
	Amount reclassified from AOCI	Affected line item in the Consolidated Statement of Income
<b>Securities available for sale:</b>		
Realized net gains on the sale of securities available for sale	\$ 511	Net gain on securities transactions
	(209)	Income tax expense
	302	Net of tax
<b>Post retirement obligations:</b>		
Amortization of actuarial losses (gains)	342	Compensation and employee benefits (1)
	(140)	Income tax expense
	202	Net of tax
Total reclassifications	\$ 504	Net of tax

(1) This item is included in the computation of net periodic benefit cost. See Note 5. Components of Net Periodic Benefit Cost.

---

**Table of Contents**

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.  
Forward Looking Statements**

Certain statements contained herein are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements may be identified by reference to a future period or periods, or by the use of forward-looking terminology, such as may, will, believe, expect, estimate, anticipate, continue, or similar terms, variations on those terms, or the negative of those terms. Forward-looking statements are subject to numerous risks and uncertainties, including, but not limited to, those related to the economic environment, particularly in the market areas in which the Company operates, competitive products and pricing, fiscal and monetary policies of the U.S. Government, changes in government regulations affecting financial institutions, including regulatory fees and capital requirements, changes in prevailing interest rates, acquisitions and the integration of acquired businesses, credit risk management, asset-liability management, the financial and securities markets and the availability of and costs associated with sources of liquidity.

The Company cautions readers not to place undue reliance on any such forward-looking statements which speak only as of the date made. The Company also advises readers that the factors listed above could affect the Company's financial performance and could cause the Company's actual results for future periods to differ materially from any opinions or statements expressed with respect to future periods in any current statements. The Company does not undertake and specifically declines any obligation to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

**Critical Accounting Policies**

The Company considers certain accounting policies to be critically important to the fair presentation of its financial condition and results of operations. These policies require management to make complex judgments on matters which by their nature have elements of uncertainty. The sensitivity of the Company's consolidated financial statements to these critical accounting policies, and the assumptions and estimates applied, could have a significant impact on its financial condition and results of operations. These assumptions, estimates and judgments made by management can be influenced by a number of factors, including the general economic environment. The Company has identified the following as critical accounting policies:

Adequacy of the allowance for loan losses

Goodwill valuation and analysis for impairment

Valuation of securities available for sale and impairment analysis

Valuation of deferred tax assets

The calculation of the allowance for loan losses is a critical accounting policy of the Company. The allowance for loan losses is a valuation account that reflects management's evaluation of the probable losses in the loan portfolio. The Company maintains the allowance for loan losses through provisions for loan losses that are charged to income. Charge-offs against the allowance for loan losses are taken on loans where management determines that the collection of loan principal is unlikely. Recoveries made on loan that have been charged-off are credited to the allowance for loan losses.

The Company's evaluation of the adequacy of the allowance for loan losses includes a review of all loans on which the collectibility of principal may not be reasonably assured. For residential mortgage and consumer loans, this is determined primarily by delinquency and collateral values. For commercial real estate and commercial loans, an extensive review of financial performance, payment history and collateral values is conducted on a quarterly basis.

## **Table of Contents**

As part of the evaluation of the adequacy of the allowance for loan losses, each quarter management prepares an analysis that categorizes the entire loan portfolio by certain risk characteristics such as loan type (residential mortgage, commercial mortgage, construction, commercial, etc.) and loan risk rating.

When assigning a risk rating to a loan, management utilizes a nine point internal risk rating system. Loans deemed to be acceptable quality are rated 1 through 4, with a rating of 1 established for loans with minimal risk. Loans deemed to be of questionable quality are rated 5 (watch) or 6 (special mention). Loans with adverse classifications (substandard, doubtful or loss) are rated 7, 8 or 9, respectively. Commercial mortgage, commercial and construction loans are rated individually and each lending officer is responsible for risk rating loans in their portfolio. These risk ratings are then reviewed by the department manager and/or the Chief Lending Officer and the Credit Administration Department. The risk ratings are also confirmed through periodic loan review examinations, which are currently performed by an independent third party and periodically, by the Credit Committee in the credit renewal or approval process.

Management assigns general valuation allowance ( GVA ) percentages to each risk rating category for use in allocating the allowance for loan losses, giving consideration to historical loss experience by loan type and other qualitative or environmental factors such as trends and levels of delinquencies, impaired loans, charge-offs, recoveries, loan volume, as well as, the national and local economic trends and conditions. The appropriateness of these percentages is evaluated by management at least once each calendar year and monitored on a quarterly basis, with changes made when they are required. In the first quarter of 2012, management completed its most recent evaluation of the GVA percentages. As a result of that evaluation, GVA percentages applied to the indirect marine loan portfolio were increased to reflect an increase in historical loss experience.

Management believes the primary risks inherent in the portfolio are a continued decline in the economy, generally, a continued decline in real estate market values, rising unemployment or a protracted period of unemployment at current elevated levels, increasing vacancy rates in commercial investment properties and possible increases in interest rates in the absence of economic improvement. Any one or a combination of these events may adversely affect borrowers ability to repay the loans, resulting in increased delinquencies, loan losses and future levels of provisions. Accordingly, the Company has provided for loan losses at the current level to address the current risk in its loan portfolio. Management considers it important to maintain the ratio of the allowance for loan losses to total loans at an acceptable level given current economic conditions, interest rates and the composition of the portfolio.

Although management believes that the Company has established and maintained the allowance for loan losses at appropriate levels, additions may be necessary if future economic and other conditions differ substantially from the current operating environment. Management evaluates its estimates and assumptions on an ongoing basis giving consideration to historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. Such estimates and assumptions are adjusted when facts and circumstances dictate. Illiquid credit markets, volatile securities markets, and declines in the housing and commercial real estate markets and the economy generally have combined to increase the uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods. In addition, various regulatory agencies periodically review the adequacy of the Company s allowance for loan losses as an integral part of their examination process. Such agencies may require the Company to recognize additions to the allowance or additional write-downs based on their judgments about information available to them at the time of their examination. Although management uses the best information available, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change.

Additional critical accounting policies relate to judgments about other asset impairments, including goodwill, investment securities and deferred tax assets. Goodwill is evaluated for impairment on an annual basis, or more frequently if events or changes in circumstances indicate potential impairment between annual measurement dates.

## **Table of Contents**

The Company qualitatively determines whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before performing Step 1 of the goodwill impairment test. If an entity concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the entity would be required to perform Step 1 of the assessment and then, if needed, Step 2 to determine whether goodwill is impaired. However, if it is more likely than not that the fair value of the reporting unit is more than its carrying amount, the entity does not need to apply the two-step impairment test. For this analysis, the Reporting Unit is defined as the Bank, which includes all core and retail banking operations of the Company but excludes the assets, liabilities, equity, earnings and operations held exclusively at the Company level. The guidance provides certain factors an entity should consider in its qualitative assessment in determining whether it is more likely than not that a reporting unit's fair value is less than its carrying amount. The factors include:

Macroeconomic conditions, such as deterioration in economic condition and limited access to capital.

Industry and market considerations, such as increased competition, regulatory developments and decline in market-dependent multiples.

Cost factors, such as increased labor costs, cost of materials and other operating costs.

Overall financial performance, such as declining cash flows and decline in revenue or earnings.

Other relevant entity-specific events, such as changes in management, strategy or customers, litigation and contemplation of bankruptcy.

Reporting unit events, such as selling or disposing a portion of a reporting unit and a change in composition of assets.

The Company completed its annual goodwill impairment test as of September 30, 2012. Based upon its qualitative assessment of goodwill, the Company concluded it was more likely than not that the fair value of the reporting unit exceeded its carrying amount, goodwill was not impaired and no further quantitative analysis (Step 1) was warranted.

The Company may, based upon its qualitative assessment, or at its option, perform the two-step process to evaluate the potential impairment of goodwill. If, based upon Step 1, the fair value of the Reporting Unit exceeds its carrying amount, goodwill of the Reporting Unit is considered not impaired. However, if the carrying amount of the Reporting Unit exceeds its fair value, an additional test must be performed. The second step test compares the implied fair value of the Reporting Unit's goodwill with the carrying amount of that goodwill. An impairment loss would be recorded to the extent that the carrying amount of goodwill exceeds its implied fair value.

At March 31, 2013, the carrying value of goodwill was \$352.7 million. Management has evaluated potential goodwill impairment triggers and based upon its qualitative assessment of goodwill, has determined that goodwill is not impaired and no further analysis is warranted.

The Company's available for sale securities portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in Stockholders' Equity. Estimated fair values are based on market quotations or matrix pricing as discussed in Note 7 to the consolidated financial statements. Securities which the Company has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. The Company conducts a periodic review and evaluation of the securities portfolio to determine if any declines in the fair values of securities are other-than-temporary. In this evaluation, if such a decline were deemed other-than-temporary, the Company would measure the total credit-related component of the unrealized loss, and recognize that portion of the loss as a charge to current period earnings. The remaining portion of the unrealized loss would be recognized as an adjustment to accumulated other comprehensive income. The fair value of the securities portfolio is significantly affected by changes in interest rates. In general, as interest rates rise, the fair value of fixed-rate securities decreases and as interest rates fall, the fair value of fixed-rate securities increases. Turmoil in the credit markets resulted in a lack of liquidity in certain sectors of the mortgage-



---

**Table of Contents**

backed securities market. Increases in delinquencies and foreclosures have resulted in limited trading activity and significant price declines, regardless of favorable movements in interest rates. The Company determines if it has the intent to sell these securities or if it is more likely than not that the Company would be required to sell the securities before the anticipated recovery. If either exists, the decline in value is considered other-than-temporary. In this evaluation, the Company did not recognize an other-than-temporary impairment charge on securities for the three months ended March 31, 2013 or 2012, respectively.

The determination of whether deferred tax assets will be realizable is predicated on the reversal of existing deferred tax liabilities, utilization against carryback years and estimates of future taxable income. Such estimates are subject to management's judgment. A valuation allowance is established when management is unable to conclude that it is more likely than not that it will realize deferred tax assets based on the nature and timing of these items. At March 31, 2013, the Company maintained a valuation allowance of \$242,000, related to unused capital loss carryforwards.

**COMPARISON OF FINANCIAL CONDITION AT MARCH 31, 2013 AND DECEMBER 31, 2012**

Total assets decreased \$96.9 million, or 1.3%, to \$7.19 billion at March 31, 2013, from \$7.28 billion at December 31, 2012, primarily due to decreases in total investments and cash and cash equivalents, partially offset by an increase in total loans.

Total investments decreased \$62.1 million, or 3.7%, to \$1.60 billion at March 31, 2013, from \$1.66 billion at December 31, 2012, largely due to principal repayments on mortgage-backed securities, maturities of municipal and agency bonds, and the sale of certain mortgage-backed securities which had a heightened risk of prepayment, partially offset by purchases of mortgage-backed and municipal securities.

Cash and cash equivalents decreased \$39.1 million to \$64.7 million at March 31, 2013, from \$103.8 million at December 31, 2012. The decline in cash was principally due to a decrease in total deposits and an increase in total loans, partially offset by a decrease in total investments.

Total loans increased \$5.7 million during the three months ended March 31, 2013 to \$4.91 billion. Loan growth was tempered by the repayment of \$17.3 million on two shared national credits during the quarter. Loan originations totaled \$348.3 million and loan purchases totaled \$2.8 million for the three months ended March 31, 2013. The loan portfolio had net increases of \$19.0 million in commercial and multi-family mortgage loans, \$15.5 million in construction loans and \$8.5 million in commercial loans, which were offset by decreases of \$30.8 million in residential mortgage loans and \$5.4 million in consumer loans. Commercial real estate, commercial and construction loans represented 63.2% of the loan portfolio at March 31, 2013, compared to 62.4% at December 31, 2012.

The Company does not originate or purchase sub-prime or option ARM loans. Prior to September 30, 2008, the Company originated Alt-A mortgages in the form of stated income loans with a maximum loan-to-value ratio of 50% on a limited basis. The balance of these Alt-A loans at March 31, 2013 was \$9.0 million. Of this total, 6 loans totaling \$715,000 were 90 days or more delinquent. General valuation reserves of 6.5%, or \$46,000, were allocated to the loans which were 90 days or more delinquent at March 31, 2013.

The Company participates in loans originated by other banks, including participations designated as Shared National Credits (SNCs). The Company's gross commitments and outstanding balances as a participant in SNCs were \$35.4 million and \$17.2 million, respectively, at March 31, 2013. At March 31, 2013, no SNC loans were past due.

The Company had outstanding junior lien mortgages totaling \$242.8 million at March 31, 2013. Of this total, 40 loans totaling \$2.9 million were 90 days or more delinquent. General valuation reserves of 10%, or \$292,000, were allocated to the loans which were 90 days or more delinquent at March 31, 2013.

**Table of Contents**

At March 31, 2013, the Company had outstanding indirect marine loans totaling \$39.3 million. Of this total, 1 loan for \$12,000 was 90 days or more delinquent. General valuation reserves of 60%, or \$7,000 were allocated to this loan at March 31, 2013. Marine loans are currently made only on a direct, limited accommodation basis to existing customers.

The following table sets forth information regarding the Company's non-performing assets as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013	December 31, 2012
Mortgage loans:		
Residential	\$ 31,634	29,293
Commercial	29,543	29,072
Multi-family	412	412
Construction	8,786	8,896
Total mortgage loans	70,375	67,673
Commercial loans	23,586	25,467
Consumer loans	5,098	5,850
Total non-performing loans	99,059	98,990
Foreclosed assets	12,192	12,473
Total non-performing assets	\$ 111,251	111,463

The following table sets forth information regarding the Company's 60-89 day delinquent loans as of March 31, 2013 and December 31, 2012 (in thousands):

	March 31, 2013	December 31, 2012
Mortgage loans:		
Residential	\$ 6,043	11,986
Commercial		12,194
Total mortgage loans	6,043	24,180
Commercial loans	113	70
Consumer loans	1,423	1,808
Total 60-89 day delinquent loans	\$ 7,579	26,058

At March 31, 2013, the allowance for loan losses totaled \$70.0 million, or 1.43% of total loans, compared with \$70.3 million, or 1.43% of total loans at December 31, 2012. Total non-performing loans were \$99.1 million, or 2.02% of total loans at March 31, 2013, compared to \$99.0 million, or 2.02% of total loans at December 31, 2012. The \$69,000 increase in non-performing loans at March 31, 2013, was largely due to a \$2.3 million increase in non-performing residential loans and a \$470,000 increase in commercial mortgage loans, offset by a \$1.9 million decrease in non-performing commercial loans and a \$751,000 decrease in non-performing consumer loans. The increase in non-performing residential mortgage loans was largely attributable to a single \$1.8 million loan the value of which is supported by a recent appraisal. As a result, the overall risk profile of the non-performing loan portfolio improved as higher-risk commercial non-performing loans decreased during the quarter.

At March 31, 2013, the Company held \$12.2 million of foreclosed assets, compared with \$12.5 million at December 31, 2012, as resolutions during the quarter of \$2.3 million were largely offset by additions of \$2.0 million. Foreclosed assets at March 31, 2013 consisted of \$6.5 million of commercial real estate, \$5.1 million of residential real estate and \$228,000 of marine vessels.

Edgar Filing: PROVIDENT FINANCIAL SERVICES INC - Form 10-Q

Non-performing assets totaled \$111.3 million, or 1.55% of total assets at March 31, 2013, compared to \$111.5 million, or 1.53% of total assets at December 31, 2012.



**Table of Contents**

Total deposits decreased \$151.7 million, or 2.8%, during the three months ended March 31, 2013 to \$5.28 billion. Core deposits, which consist of savings and demand deposit accounts, decreased \$109.9 million, or 2.5%, to \$4.36 billion at March 31, 2013. The majority of the core deposit decrease was in demand and money market deposits and included certain expected outflows resulting from client tax planning considerations. Time deposits decreased \$41.8 million, or 4.4%, to \$915.7 million at March 31, 2013, with the majority of the decrease occurring in the 6-, 12- and 60-month maturity categories. Core deposits represented 82.6% of total deposits at March 31, 2013, compared to 82.4% at December 31, 2012. The Company remains focused on developing core deposit relationships, while strategically permitting the run-off of time deposits.

Borrowed funds increased \$50.7 million, or 6.3% during the three months ended March 31, 2013, to \$854.0 million, as wholesale funding partially replaced the outflow in deposits. Borrowed funds represented 11.9% of total assets at March 31, 2013, an increase from 11.0% at December 31, 2012.

Stockholders' equity increased \$9.2 million, or 0.9% during the three months ended March 31, 2013, to \$990.4 million, primarily due to net income earned for the period, partially offset by dividends paid to stockholders and common stock repurchases. Common stock repurchases for the three months ended March 31, 2013 totaled 55,666 shares at an average cost of \$15.08 per share in connection with employee income tax withholding on stock-based compensation. At March 31, 2013, 4.1 million shares remained eligible for repurchase under the current stock repurchase program authorized by the Company's Board of Directors. At March 31, 2013, book value per share and tangible book value per share were \$16.52 and \$10.55, respectively, compared with \$16.37 and \$10.40, respectively, at December 31, 2012.

*Liquidity and Capital Resources.* Liquidity refers to the Company's ability to generate adequate amounts of cash to meet financial obligations to its depositors, to fund loans and securities purchases, deposit outflows and operating expenses. Sources of funds include scheduled amortization of loans, loan prepayments, scheduled maturities of investments, cash flows from mortgage-backed securities and the ability to borrow funds from the FHLB-NY and approved broker dealers.

Cash flows from loan payments and maturing investment securities are fairly predictable sources of funds. Changes in interest rates, local economic conditions and the competitive marketplace can influence loan prepayments, prepayments on mortgage-backed securities and deposit flows.

As of March 31, 2013, the Bank and the Company exceeded all current minimum regulatory capital requirements as follows:

	March 31, 2013			
	Required Amount	Ratio	Actual Amount	Ratio
(Dollars in thousands)				
<b>Bank:</b>				
Regulatory Tier 1 leverage capital	\$ 274,567	4.00%	\$ 551,205	8.03%
Tier 1 risk-based capital	196,964	4.00	551,205	11.19
Total risk-based capital	393,927	8.00	612,861	12.45
<b>Company:</b>				
Regulatory Tier 1 leverage capital	\$ 274,562	4.00%	\$ 628,427	9.16%
Tier 1 risk-based capital	196,953	4.00	628,427	12.76
Total risk-based capital	393,905	8.00	690,079	14.02

---

**Table of Contents****COMPARISON OF OPERATING RESULTS FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012**

**General.** The Company reported net income of \$17.8 million, or \$0.31 per basic and diluted share for the three months ended March 31, 2013, compared to net income of \$18.4 million, or \$0.32 per basic and diluted share for the three months ended March 30, 2012. Earnings for the first quarter of 2013 were aided by improvements in asset quality and a related reduction in the provision for loan losses compared with the same period last year, while growth in both average loans outstanding and average lower-costing core deposits have helped offset the adverse impact of the prolonged low interest rate environment.

**Net Interest Income.** Total net interest income decreased \$942,000 or 1.7%, to \$53.9 million for the quarter ended March 31, 2013, from \$54.8 million for the quarter ended March 31, 2012. Interest income for the first quarter of 2013 decreased \$3.6 million to \$63.3 million, from \$66.9 million for the same period in 2012. Interest expense decreased \$2.6 million, or 21.9%, to \$9.4 million for the quarter ended March 31, 2013, from \$12.0 million for the quarter ended March 31, 2012. The decline in net interest income for the three months ended March 31, 2013, versus the comparable period in 2012, resulted from the compression in the net interest margin, which was substantially mitigated by the increase in average interest earning assets, primarily average loans outstanding, funded by growth in lower-costing average core deposits, largely interest and non-interest bearing demand deposits.

The net interest margin for the quarter ended March 31, 2013 decreased 9 basis points to 3.33% compared with 3.42% for the quarter ended March 31, 2012. The decrease in the net interest margin for the quarter ended March 31, 2013, compared with the same period last year, was primarily attributable to reductions in the weighted average yield on interest-earning assets which declined 27 basis points to 3.92% for the quarter ended March 31, 2013, compared with 4.19% for the quarter ended March 31, 2012. The weighted average cost of interest-bearing liabilities declined 19 basis points to 0.71% for the quarter ended March 31, 2013, compared with 0.90% for the first quarter of 2012. The average cost of interest bearing deposits for the quarter ended March 31, 2013 was 0.44%, compared with 0.62% for the same period last year. Average non-interest bearing demand deposits totaled \$819.5 million for the quarter ended March 31, 2013, compared with \$670.1 million for the quarter ended March 31, 2012. The average cost of borrowed funds for the quarter ended March 31, 2013 was 2.24%, compared with 2.25% for the same period last year.

Interest income on loans secured by real estate decreased \$624,000 to \$38.3 million, or 1.6% for the three months ended March 31, 2013, from \$39.0 million for the three months ended March 31, 2012. Commercial loan interest income decreased \$399,000 to \$10.0 million, or 3.8% for the three months ended March 31, 2013, from \$10.4 million for the three months ended March 31, 2012. Consumer loan interest income decreased \$332,000, or 5.3%, to \$6.0 million for the three months ended March 31, 2013, from \$6.3 million for the three months ended March 31, 2012. For the three months ended March 31, 2013, the average balance of net loans increased \$245.3 million to \$4.83 billion, from \$4.58 billion for the same period in 2012. The average loan yield for the three months ended March 31, 2013 decreased 32 basis points to 4.51%, from 4.83% for the same period in 2012.

Interest income on investment securities held to maturity decreased \$79,000, to \$2.8 million for the quarter ended March 31, 2013, compared to the same period last year. Average investment securities held to maturity increased \$6.6 million, or 1.9%, to \$350.3 million for the quarter ended March 31, 2013, from \$343.7 million for the same period last year. The average yield on investment securities held to maturity for the three months ended March 31, 2013 decreased 16 basis points to 3.24%, from 3.40% for the same period in 2012.

Interest income on securities available for sale and FHLB-NY stock decreased \$2.1 million, or 25.7%, to \$6.2 million for the quarter ended March 31, 2013, from \$8.3 million for the quarter ended March 31, 2012. The average balance of securities available for sale decreased \$127.3 million, or 9.3%, to \$1.24 billion for the three months ended March 31, 2013, from \$1.37 billion for the same period in 2012. The average yield on securities available for sale for the three months ended March 31, 2013 decreased 44 basis points to 1.85%, from 2.29% for the same period in 2012.

---

**Table of Contents**

The average yield on total securities decreased 35 basis points to 2.19% for the three months ended March 31, 2013, compared with 2.54% for the same period in 2012.

Interest paid on deposit accounts decreased \$2.0 million, or 29.2%, to \$5.0 million for the quarter ended March 31, 2013, from \$7.0 million for the quarter ended March 31, 2012. The average cost of interest-bearing deposits decreased to 0.44% for the three months ended March 31, 2013, from 0.62% for the three months ended March 31, 2012. The average balance of interest-bearing core deposit accounts increased \$216.8 million, or 6.4%, to \$3.61 billion for the quarter ended March 31, 2013, from \$3.40 billion for the quarter ended March 31, 2012. Average time deposit account balances decreased \$179.2 million, or 16.1%, to \$931.0 million for the quarter ended March 31, 2013, from \$1.11 billion for the same period in 2012.

Interest paid on borrowed funds decreased \$588,000, or 11.7%, to \$4.5 million for the quarter ended March 31, 2013, from \$5.0 million for the quarter ended March 31, 2012. Average borrowings decreased \$95.9 million, or 10.6%, to \$804.9 million for the quarter ended March 31, 2013, from \$900.8 million for the quarter ended March 31, 2012. The average cost of borrowings decreased to 2.24% for the three months ended March 31, 2013, from 2.25% for the three months ended March 31, 2012.

**Provision for Loan Losses.** Provisions for loan losses are charged to operations to maintain the allowance for loan losses at a level management considers necessary to absorb probable credit losses inherent in the loan portfolio. In determining the level of the allowance for loan losses, management considers past and current loss experience, evaluations of real estate collateral, current economic conditions, volume and type of lending, adverse situations that may affect a borrower's ability to repay the loan and the levels of non-performing and other classified loans. The amount of the allowance is based on estimates, and the ultimate losses may vary from such estimates as more information becomes available or later events change. Management assesses the adequacy of the allowance for loan losses on a quarterly basis and makes provisions for loan losses, if necessary, in order to maintain the adequacy of the allowance. The Company's emphasis on continued diversification of the loan portfolio through the origination of commercial loans has been one of the more significant factors management has considered in evaluating the allowance for loan losses and provision for loan losses for the past several years. In the event the Company further increases the amount of such types of loans in the portfolio, management may determine that additional or increased provisions for loan losses are necessary, which could adversely affect earnings.

The provision for loan losses was \$1.5 million for the three months ended March 31, 2013, compared with \$5.0 million for the three months ended March 31, 2012. The decrease in the provision for loan losses for the three months ended March 31, 2013, compared with the same period in 2012, was primarily attributable to an overall improvement in asset quality, as the ratio of non-performing loans to total loans and the weighted average risk rating of the loan portfolio both improved. For the three-month period ended March 31, 2013, the Company had net charge-offs of \$1.8 million, compared with net charge-offs of \$5.4 million for the same period in 2012. The allowance for loan losses was \$70.0 million, or 1.43% of total loans at March 31, 2013, compared to \$74.0 million, or 1.59% of total loans at March 31, 2012.

**Non-Interest Income.** Non-interest income totaled \$9.9 million for the quarter ended March 31, 2013, a decrease of \$2.8 million, or 21.9%, compared to the same period in 2012. Net gains on securities transactions decreased \$1.7 million, totaling \$511,000 for the three months ended March 31, 2013, compared with \$2.2 million for the same period in 2012. For both the three months ended March 31, 2013 and 2012, the Company identified and strategically sold select securities which had a heightened risk of accelerated prepayment. The proceeds from these sales were reinvested in similar securities with more stable projected cash flows. Other income decreased \$844,000 for the three months ended March 31, 2013, compared to the same period in 2012, primarily due to income recognized in the prior year quarter associated with the discontinuance of the Company's debit card rewards program, a decrease in gains related to loan sales and an increase in net losses on the sale of foreclosed real estate. Additionally, fee

**Table of Contents**

income decreased \$115,000 to \$8.0 million for the three months ended March 31, 2013, from \$8.1 million for the three months ended March 31, 2012, largely due to lower deposit-based fee revenue and a decrease in wealth management fees, partially offset by increased commercial loan prepayment fee income.

**Non-Interest Expense.** For the three months ended March 31, 2013, non-interest expense increased \$155,000, or 0.4%, to \$36.9 million, compared to \$36.8 million for the three months ended March 31, 2012. Compensation and benefits increased \$483,000 for the quarter ended March 31, 2013, compared to the quarter ended March 31, 2012, due to higher salary expense associated with annual merit increases, increased severance costs and increased incentive compensation accrual, partially offset by reduced employee medical and retirement benefit costs. Net occupancy expense increased \$180,000 for the three months ended March 31, 2013, compared with the same period in 2012, primarily attributable to higher snow removal costs and increased depreciation expense related to branch renovations, partially offset by lower rent expense, a portion of which was due to branch consolidations in 2012. Partially offsetting these increases in non-interest expense, other operating expenses decreased \$235,000, or 4.0%, to \$5.6 million for the quarter ended March 31, 2013, from \$5.9 million for the same period in 2012, due primarily to decreases in debit card processing costs, legal expenses, loan collection activity, and loan administration expenses. These decreases in other operating expenses were partially offset by valuation adjustments related to foreclosed real estate. Also, the amortization of intangibles decreased \$228,000 for the three months ended March 31, 2013, compared with the same period in 2012, as a result of scheduled reductions in core deposit intangible amortization. FDIC insurance expense decreased \$140,000, to \$1.3 million for the three months ended March 31, 2013, from \$1.4 million for the same period in 2012, primarily due to a lower assessment rate.

The Company's annualized non-interest expense as a percentage of average assets was 2.08% for the quarter ended March 31, 2013, unchanged from the same period in 2012. The efficiency ratio (non-interest expense divided by the sum of net interest income and non-interest income) was 57.87% for the quarter ended March 31, 2013, compared with 54.45% for the same period in 2012.

**Income Tax Expense.** For the three months ended March 31, 2013, the Company's income tax expense was \$7.6 million, compared with \$7.3 million, for the three months ended March 31, 2012. The increase in income tax expense was a function of growth in pre-tax income from taxable sources. The Company's effective tax rate was 29.8% and 28.5% for the three months ended March 31, 2013 and 2012, respectively.

**Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

**Qualitative Analysis.** Interest rate risk is the exposure of a bank's current and future earnings and capital arising from adverse movements in interest rates. The guidelines of the Company's interest rate risk policy seek to limit the exposure to changes in interest rates that affect the underlying economic value of assets and liabilities, earnings and capital. To minimize interest rate risk, the Company generally sells all 20- and 30-year fixed-rate mortgage loans at origination. Commercial real estate loans generally have interest rates that reset in five years, and other commercial loans such as construction loans and commercial lines of credit reset with changes in the Prime rate, the Federal Funds rate or LIBOR. Investment securities purchases generally have maturities of five years or less, and mortgage-backed securities have weighted average lives between three and five years.

The Asset/Liability Committee meets on at least a monthly basis to review the impact of interest rate changes on net interest income, net interest margin, net income and the economic value of equity. The Asset/Liability Committee reviews a variety of strategies that project changes in asset or liability mix and the impact of those changes on projected net interest income and net income.

The Company's strategy for liabilities has been to maintain a stable core-funding base by focusing on core deposit account acquisition and increasing products and services per household. The Company's ability to retain maturing certificate of deposit accounts is the result of its strategy to remain competitively priced

**Table of Contents**

within its marketplace. The Company's pricing strategy may vary depending upon current funding needs and the ability of the Company to fund operations through alternative sources, primarily by accessing short-term lines of credit with the FHLB of New York during periods of pricing dislocation.

*Quantitative Analysis.* Current and future sensitivity to changes in interest rates are measured through the use of balance sheet and income simulation models. The analyses capture changes in net interest income using flat rates as a base, a most likely rate forecast and rising and declining interest rate forecasts. Changes in net interest income and net income for the forecast period, generally twelve to twenty-four months, are measured and compared to policy limits for acceptable change. The Company periodically reviews historical deposit re-pricing activity and makes modifications to certain assumptions used in its income simulation model regarding the interest rate sensitivity of deposits without maturity dates. These modifications are made to more closely reflect the most likely results under the various interest rate change scenarios. Since it is inherently difficult to predict the sensitivity of interest bearing deposits to changes in interest rates, the changes in net interest income due to changes in interest rates cannot be precisely predicted. There are a variety of reasons that may cause actual results to vary considerably from the predictions presented below which include, but are not limited to, the timing, magnitude, and frequency of changes in interest rates, interest rate spreads, prepayments, and actions taken in response to such changes.

Specific assumptions used in the simulation model include:

Parallel yield curve shifts for market rates;

Current asset and liability spreads to market interest rates are fixed;

Traditional savings and interest-bearing demand accounts move at 10% of the rate ramp in either direction;

Retail Money Market and Business Money Market accounts move at 25% and 75% of the rate ramp in either direction; respectively; and

Higher-balance demand deposit tiers and promotional demand accounts move at up to 75% of the rate ramp in either direction.

The following table sets forth the results of a twelve-month net interest income projection model as of March 31, 2013 (dollars in thousands):

Change in Interest Rates in	Net Interest Income		
	Dollar Amount	Dollar Change	Percent Change
<b>Basis Points (Rate Ramp)</b>			
<b>-100</b>	208,982	(3,002)	(1.4)
<b>Static</b>	211,984		
<b>+100</b>	209,364	(2,620)	(1.2)
<b>+200</b>	204,371	(7,613)	(3.6)
<b>+300</b>	198,789	(13,195)	(6.2)

The preceding table indicates that, as of March 31, 2013, in the event of a 300 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, net interest income would decrease 6.2%, or \$13.2 million. In the event of a 100 basis point decrease in interest rates, net interest income is projected to decrease 1.4%, or \$3.0 million.

**Table of Contents**

Another measure of interest rate sensitivity is to model changes in economic value of equity through the use of immediate and sustained interest rate shocks. The following table illustrates the result of the economic value of equity model as of March 31, 2013 (dollars in thousands):

Change in Interest Rates (Basis Points)	Present Value of Equity			Present Value of Equity as Percent of Present Value of Assets	
	Dollar Amount	Dollar Change	Percent Change	Present Value Ratio	Percent Change
-100	1,270,476	16,237	1.3	16.9	0.9
Flat	1,254,239			16.7	
+100	1,193,202	(61,037)	(4.9)	16.1	(3.7)
+200	1,111,208	(143,031)	(11.4)	15.2	(9.0)
+300	1,016,765	(237,474)	(18.9)	14.2	(15.3)

The preceding table indicates that as of March 31, 2013, in the event of an immediate and sustained 300 basis point increase in interest rates, the present value of equity is projected to decrease 18.9%, or \$237.5 million. If rates were to decrease 100 basis points, the model forecasts a 1.3%, or \$16.2 million increase in the present value of equity.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes in net interest income requires the use of certain assumptions regarding prepayment and deposit decay rates, which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. While management believes such assumptions are reasonable, there can be no assurance that assumed prepayment rates and decay rates will approximate actual future loan prepayment and deposit withdrawal activity. Moreover, the net interest income table presented assumes that the composition of interest sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. Accordingly, although the net interest income table provides an indication of the Company's interest rate risk exposure at a particular point in time, such measurement is not intended to and does not provide a precise forecast of the effect of changes in market interest rates on the Company's net interest income and will differ from actual results.

**Item 4. CONTROLS AND PROCEDURES.**

Under the supervision and with the participation of management, including the Principal Executive Officer and the Principal Financial Officer, the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Securities Exchange Act of 1934) were evaluated at the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and the Principal Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures are effective. There has been no change in the Company's internal control over financial reporting during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

The Company is involved in various legal actions and claims arising in the normal course of business. In the opinion of management, these legal actions and claims are not expected to have a material adverse impact on the Company's financial condition and results of operations.

**Item 1A. Risk Factors**

There have been no material changes to the risk factors that were previously disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.****ISSUER PURCHASES OF EQUITY SECURITIES**

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (1)(2)
January 1, 2013 Through January 31, 2013	2,786	14.90	2,786	4,109,564
February 1, 2013 Through February 28, 2013	22,753	15.08	22,753	4,086,811
March 1, 2013 Through March 31, 2013	30,127	15.09	30,127	4,056,684
Total	55,666	15.08	55,666	

- (1) On October 24, 2007, the Company's Board of Directors approved the purchase of up to 3,107,077 shares of its common stock under a seventh general repurchase program which commenced upon completion of the previous repurchase program. The repurchase program has no expiration date.
- (2) On December 20, 2012, the Company's Board of Directors approved the purchase of up to 3,017,770 shares of its common stock under an eighth general repurchase program which will commence upon completion of the previous repurchase program. The repurchase program has no expiration date.

**Table of Contents**

**Item 3. Defaults Upon Senior Securities.**

Not Applicable

**Item 4. Mine Safety Disclosures**

Not Applicable

**Item 5. Other Information.**

None

**Item 6. Exhibits.**

The following exhibits are filed herewith:

- 3.1 Certificate of Incorporation of Provident Financial Services, Inc. (Filed as an exhibit to the Company's Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241.)
- 3.2 Amended and Restated Bylaws of Provident Financial Services, Inc. (Filed as an exhibit to the Company's December 31, 2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
- 4.1 Form of Common Stock Certificate of Provident Financial Services, Inc. (Filed as an exhibit to the Company's Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241.)
- 10.1 Employment Agreement by and between Provident Financial Services, Inc and Christopher Martin dated September 23, 2009. (Filed as an exhibit to the Company's September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009/ File No. 001-31566.)
- 10.2 Form of Amended and Restated Two-Year Change in Control Agreement between Provident Financial Services, Inc. and certain executive officers. (Filed as an exhibit to the Company's December 31, 2009 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 1, 2010 /File No. 001-31566.)
- 10.3 Amended and Restated Employee Savings Incentive Plan, as amended. (Filed as an exhibit to the Company's June 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566.)
- 10.4 Employee Stock Ownership Plan (Filed as an exhibit to the Company's Registration Statement on Form S-1, and any amendments thereto, with the Securities and Exchange Commission/Registration No. 333-98241) and Amendment No. 1 to the Employee Stock Ownership Plan (Filed as an exhibit to the Company's June 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566.)
- 10.5 Supplemental Executive Retirement Plan of The Provident Bank. (Filed as an exhibit to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
- 10.6 Amended and Restated Supplemental Executive Savings Plan. (Filed as an exhibit to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
- 10.7 Retirement Plan for the Board of Managers of The Provident Bank. (Filed as an exhibit to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009 /File No. 001-31566.)
- 10.8 The Provident Bank Amended and Restated Voluntary Bonus Deferral Plan. (Filed as an exhibit to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No. 001-31566.)
- 10.9 Provident Financial Services, Inc. Board of Directors Voluntary Fee Deferral Plan. (Filed as an exhibit to the Company's December 31, 2008 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 2, 2009/File No.



001-31566.)

**Table of Contents**

10.10	First Savings Bank Directors' Deferred Fee Plan, as amended. (Filed as an exhibit to the Company's September 30, 2004 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission /File No. 001-31566.)
10.11	The Provident Bank Non-Qualified Supplemental Defined Contribution Plan. (Filed as an exhibit to the Company's May 27, 2010 Current Report on Form 8-K filed with the Securities and Exchange Commission on June 3, 2010/File No. 001-31566.)
10.12	Provident Financial Services, Inc. 2003 Stock Option Plan. (Filed as an exhibit to the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on June 4, 2003/File No. 001-31566.)
10.13	Provident Financial Services, Inc. 2003 Stock Award Plan. (Filed as an exhibit to the Company's Proxy Statement for the 2003 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on June 4, 2003/ File No. 001-31566.)
10.14	Provident Financial Services, Inc. 2008 Long-Term Equity Incentive Plan. (Filed as an exhibit to the Company's Proxy Statement for the 2008 Annual Meeting of Stockholders filed with the Securities and Exchange Commission on March 14, 2008/File No. 001-31566.)
10.15	Consulting Services Agreement by and between The Provident Bank and Paul M. Pantozzi made as of September 23, 2009. (Filed as an exhibit to the Company's September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009/File No. 001-31566.)
10.16	Change in Control Agreement by and between Provident Financial Services, Inc. and Christopher Martin dated September 23, 2009. (Filed as an exhibit to the Company's September 30, 2009 Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 9, 2009/File No. 001-31566.)
10.17	Written Description of Provident Financial Services, Inc.'s 2011 Cash Incentive Plan. (Filed as an exhibit to the Company's Form 10-K/A filed with the Securities and Exchange Commission on December 27, 2011/File No. 001-31566.)
10.18	Written Description of Provident Financial Services, Inc.'s 2012 Cash Incentive Plan. (Filed as an exhibit to the Company's December 31, 2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
10.19	Omnibus Incentive Compensation Plan. (Filed as an exhibit to the Company's December 31, 2011 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on February 29, 2012/File No. 001-31566.)
10.20	Written Description of Provident Financial Services, Inc.'s 2013 Cash Incentive Plan. (Filed as an exhibit to the Company's December 31, 2012 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013/File No. 001-31566)
10.21	Form of Three-Year Change in Control Agreement between Provident Financial Services, Inc. and each of Messrs. Blum, Kuntz, Lyons and Raimonde dated as of February 21, 2013. (Filed as an exhibit to the Company's December 31, 2012 Annual Report to Stockholders on Form 10-K filed with the Securities and Exchange Commission on March 1, 2013/File No. 001-31566)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from the Company's Quarterly Report to Stockholders on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Financial Condition, (ii) the Consolidated Statements of Operations, (iii) the Consolidated Statements of Comprehensive Income (iv) the Consolidated Statements of Changes in Stockholder's Equity, (v) the Consolidated Statements of Cash Flows and (vi) the Notes to Consolidated Financial Statements.
101.INS (1)	XBRL Instance Document
101.SCH (1)	XBRL Taxonomy Extension Schema Document
101.CAL (1)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF (1)	XBRL Taxonomy Extension Definition Linkbase Document



**Table of Contents**

101.LAB (1)	XBRL Taxonomy Extension Labels Linkbase Document
101.PRE (1)	XBRL Taxonomy Extension Presentation Linkbase Document

- (1) These interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise are not subject to liability under these sections.

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**PROVIDENT FINANCIAL SERVICES, INC.**

Date: May 10, 2013

By: /s/ Christopher Martin  
Christopher Martin  
Chairman, President and Chief Executive Officer (Principal  
Executive Officer)

Date: May 10, 2013

By: /s/ Thomas M. Lyons  
Thomas M. Lyons  
Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

Date: May 10, 2013

By: /s/ Frank S. Muzio  
Frank S. Muzio  
Senior Vice President and Chief Accounting Officer